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SUBJECT: INVESTOR INEXPERIENCE FUELS TELECOMS IPO BOOM

REF: CAIRO 06163

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1. (U) On November 29, the GOE began its long-awaited divestiture of 20% of Telecom Egypt (TE), with an initial public offering of 10%, or 170 million shares, on the Cairo and Alexandria Stock Exchange (CASE) sold to individuals, and the additional 10% being sold to institutions. After several weeks of press speculation that the market boom was leveling off due to profit taking in advance of the sale - i.e., as investors needed liquidity to invest in TE - the IPO met with an immediate rush for subscriptions and became a major topic of conversation on the cocktail circuit. So far, with the IPO to close on December 7, and with investors anticipating a steady rise in share value, indicators suggest that there have been requests for 440 million shares; experts expect the actual allocation to range between 30-40% of the requests. The private placement portion of the divestiture for institutions, according to press, has also been oversubscribed by 5-10 times the available shares.

2. (SBU) Enthusiasm for the IPO certainly suggests optimism about Egypt's general economic prospects. However, contacts in both the telecoms and financial sectors worry that some investor exuberance is misplaced, particularly from small and less sophisticated investors. TE currently holds a monopoly over fixed-line communications that will expire at the end of 2005, after which it will face marketplace competition - including from companies offering Voice over Internet Protocol (VoIP) technology, which will permit international calls at half the cost of inflated TE landline calls. TE currently makes nearly 30% of its profit on international calls, and domestic calls are heavily subsidized.

3. (SBU) More experienced investors reportedly will dump their TE holdings soon to turn a quick profit. Newcomers, thus, may lose money in a sell-off in the next few months, though news reports optimistically suggest that the share value will gain 15% immediately upon the opening of trade in its shares, on Dec. 14, on CASE and through Global Depository Receipts (GDRs) on the London Stock Exchange.

4. (SBU) Comment: At a luncheon two weeks ago, the head of locally-prominent EFG Hermes Holdings noted that the bull trend on CASE over the last few months was deceptive, as investment in relatively transparent companies had slowed, while investment in companies about which investors knew little had driven the market upward. He suggested this meant that market newcomers were diving in without full knowledge. Certainly a well-known brand like TE would appeal to new investors. End comment.

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